

Message Text

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PAGE 01 CAIRO 02516 01 OF 02 211504Z

44

ACTION NEA-12

INFO OCT-01 AF-10 EUR-25 ADP-00 AID-20 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 DODE-00 PM-07

H-03 L-03 NSC-10 PA-03 PRS-01 SS-15 USIA-15 STR-08

AGR-20 IO-13 RSR-01 /220 W
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FM USINT CAIRO

TO SECSTATE WASHDC 3631

INFO AMEMBASSY AMMAN

AMEMBASSY BEIRUT

AMCONSUL JERUSALEM

AMEMBASSY JIDDA

AMEMBASSY KHARTOUM

AMEMBASSY LONDON

AMEMBASSY MOSCOW

AMEMBASSY TEL AVIV

AMEMBASSY TRIPOLI

AMEMBASSY TUNIS

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C O N F I D E N T I A L SECTION 1 OF 2 CAIRO 02516

EO 11652: GDS

TAGS: ECON EG

SUBJECT: HEGAZI OUTLINES GOE'S FUTURE ECONOMIC
POLICY

REF: CAIRO 2430

SUMMARY: AUGUST 19 INTERVIEW WITH HEGAZI IS REMARKABLE STATE-
MENT OF PRESENT AND FUTURE COURSE OF GOE ECONOMIC POLICY.

IT UNDERSCORES NEED FOR FOREIGN INVESTMENT; FORESEES

INCREASED ROLE OF PRIVATE SECTOR AND USE OF PRIVATE CAPITAL

CONFIDENTIAL

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PAGE 02 CAIRO 02516 01 OF 02 211504Z

IN FINANCING PUBLIC SECTOR PROJECTS; MARKS A SHIFT AWAY

FROM ECONOMIC TIES TO TRADE AGREEMENTS (PRIMARILY EASTERN BLOC) COUNTRIES, AND EMPHASIZES INCREASED NON-TRADITIONAL TRADE WITH WEST. POLITICALLY, TREND IN GOE ECONOMIC POLICY TOWARD CAPITALIST-INCENTIVE SYSTEM WHICH HEGAZI'S STATEMENT SIGNIFIES IS VIRTUAL REFUTATION OF NASSERIST SOCIALISM. END SUMMARY.

1. AUGUST 19 AHAM PUBLISHED LONG INTERVIEW WITH DEPUTY PRIMIN AND MIN OF FINANCE AND ECONOMY HEGAZI, IN WHICH LATTER EXPLAINED EGYPT'S "NEW" ECONOMIC POLICY. DURING COURSE OF INTERVIEW, HEGAZI MADE FOLLOWING POINTS:

(A) IN VIEW OF INTERNATIONAL ECONOMIC CHANGES, EGYPT IS REQUIRED TO REDEFINE HER ECONOMIC FUTURE. SHE HAS EMBARKED ON NEW ECONOMIC POLICY WHICH AIMS AT BEST UTILIZATION OF CAPITAL AND HUMAN RESOURCES; RAISING LEVEL OF PRODUCTIVE EFFICIENCY "ON THE BASIS OF OPENING UP TO THE OUTSIDE WORLD"--NOT BY ECONOMIC INTROVERSION OR BY CONCENTRATING ON SPECIFIC EXTERNAL MARKETS TO EXCLUSION OF OTHERS; USING ECONOMIC MEASURES IN GREATER CONFORMITY WITH NORMAL FOREIGN TRADE OPERATIONS; USING ARAB WORLD POTENTIALS FOR ARAB DEVELOPMENT; AND REVISING EXPORT POLICY TOWARD VARIOUS MARKETS.

(B) PARALLEL CURRENCY MARKET SHOULD BE CREATED IN ORDER TO ATTRACT SAVINGS OF EGYPTIANS ABROAD, TOURIST REVENUE, AND CAPITAL FROM PRIVATE SECTOR EXPORTS OF NON-TRADITIONAL GOODS TO HARD-CURRENCY AREAS. PARALLEL MARKET WOULD GIVE PRIVATE SECTOR THE RIGHT TO IMPORT PRODUCTION NEEDS, AND KEEP ITS FOREIGN CURRENCY REVENUE IN LOCAL BANKS TO BE USED WITHOUT RESTRICTION.

(C) WHILE TRADE AGREEMENT COUNTRIES HAVE ASSISTED EGYPT'S ECONOMIC DEVELOPMENT IN MANY WAYS, "THE MAP OF OUR FOREIGN TRADE IN THE COMING STAGE MUST BE REARRANGED." HEGAZI NOTED "IMBALANCE" IN FACT THAT 50 PERCENT OF EGYPTIAN EXPORTS COME FROM AGREEMENT COUNTRIES WHILE 70 PERCENT OF EGYPTIAN EXPORTS GO TO THEM. SITUATION REQUIRES WIDER OPENING UP TO THE WORLD.

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PAGE 03 CAIRO 02516 01 OF 02 211504Z

(D) A STOCK MARKET SHOULD BE CONSIDERED TO ENABLE PRIVATE CAPITAL TO PARTICIPATE IN PUBLIC SECTOR COMPANIES. HEGAZI EXPLAINED THAT EGYPT NEEDED "NEW STYLES" OF FINANCIAL MANAGEMENT, AND A NEW AND OBJECTIVE LOOK TO REVISE LEGISLATION. "WE WANT TO APPLY A CAPITALIST ADMINISTRATIVE METHOD IN A SOCIALIST SOCIETY. THERE MUST BE METICULOUS AND DECISIVE SUPERVISION. THE PRODUCTION SECTORS NEED A VIOLENT SHOCK."

(E) AGRICULTURAL DEVELOPMENT IS STILL LIMITED.
NEW PATTERNS OF PRODUCTION MUST BE ESTABLISHED TO MEET
CONSUMPTION REQUIREMENTS AND CONFORM WITH CHANGES IN
FOREIGN MARKETS AND RISES IN COMMODITY PRICES. (HE
SAID EGYPT WOULD HAVE TO PAY DOLLARS 150 MILLION TO
PURCHASE WHEAT IN 1973, WHICH WE FIND AN
UNREALISTICALLY LOW FIGURE FOR TOTAL 1973 WHEAT PURCHASES).

2. HEGAZI WAS ASKED WHETHER THIS POLICY WAS A DEPARTURE
FROM SOCIALISM, AND WHETHER HE HAD ANY COMMENTS ON THE
"VICIOUS CAMPAIGN" CURRENTLY TAKING PLACE AGAINST THE
PUBLIC SECTOR. HEGAZI EVADED DIRECT ANSWERS. HE SAID
THAT ECONOMIC PLANNING AIMED AT INCREASE OF ECONOMIC
RESOURCES, NOTING THAT PARALLEL MARKET WAS AIMED AT
GIVING A "REAL VALUE" TO EGYPTIAN POUND, NOT DEVALUING
IT. SOCIALISM WAS THEREFORE BEING RHETORICALLY, "HOW
CAN WE IMPLEMENT SOCIALISM IN WHICH THERE IS NO INCREASE
IN PRODUCTION AND IF THE PEOPLE'S INTERESTS ARE HINDERED?"
REGARDING THE PUBLIC SECTOR, HEGAZI SAID, "IT MAY REQUIRE
GUIDANCE." A PLAN MUST BE LAID FOR ITS ADMINISTRATION
ACCORDING TO SOUND ECONOMIC BASES.

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PAGE 01 CAIRO 02516 02 OF 02 211503Z

53

ACTION NEA-12

INFO OCT-01 AF-10 EUR-25 ADP-00 CIAE-00 DODE-00 PM-07 H-03

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C O N F I D E N T I A L SECTION 2 OF 2 CAIRO 02516

3. COMMENT: HEGAZI'S STATEMENT IS IMPORTANT AS A BLUE-PRINT OF CURRENT GOE ECONOMIC THINKING. IT FOLLOWS ARTICLES AND VIEWS EXPRESSED BY OTHER ESTABLISHMENT FIGURES (KAISSOUNI, OTEIFI, ABU WAFIA) POINTING TOWARD THE MAJOR REVISION OF EGYPTIAN PLANNING SIGNALLED IN SADAT'S JULY 23 SPEECH AND, MORE RECENTLY, IN THE ASU/PEOPLES ASSEMBLY WORKING PAPER (REFTEL). THE MOST SIGNIFICANT ASPECT OF THE STATEMENT IS ITS EMPHASIS ON CAPITALIST INCENTIVES TO OBTAIN FOREIGN EXCHANGE, DEVELOPMENT FINANCING, THE IMPROVEMENT OF EGYPT'S PRODUCTION POTENTIAL AND, IN EFFECT, A NEW MANAGERIAL SYSTEM.
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PAGE 02 CAIRO 02516 02 OF 02 211503Z

WHILE DENYING THAT THIS IS THE CASE, IT PORTENDS AN IMPORTANT SHIFT OF THE ECONOMY TOWARD THE MARKETS OF THE WESTERN COUNTRIES, AND AWAY FROM THE SOVIET UNION AND THE EASTERN BLOC. ONE MAY FORESEE IN THIS AN INCREASED RELUCTANCE TO MEET PAYMENTS OF DEBTS OWED TO THE LATTER, WITH A CONCOMITANT DESIRE TO IMPROVE EGYPT'S CREDIT RATING WITH THE FORMER.

4. HEGAZI'S STATEMENT, AND THE GOE'S NEW ECONOMIC POLICY, IS THE RESULT OF POWERFUL FACTORS WHICH, OVER THE PAST FEW YEARS, HAVE COMBINED TO PULL EGYPT AWAY FROM NASSER'S SOCIALISM OF THE EARLY 1960'S. THE MOST IMPORTANT OF THESE HAS BEEN THE CONTINUED DETERIORATION OF EGYPT'S FINANCIAL POSITION AND ABILITY TO MEET ITS BASIC ECONOMIC REQUIREMENTS. CONTINUED ADJUSTMENTS OF THE FIVE-YEAR PLAN, NEW AGREEMENTS WITH THE SOVIETS AND OTHERS FOR MAJOR INDUSTRIAL PROJECTS, THE APPOINTMENT OF A PRIME MINISTER--SIDKY--WITH CONSIDERABLE ECONOMIC EXPDIENCE, HAVE PROVIDED EGYPT WITH THE ABILITY TO DO LITTLE MORE THAN BARELY KEEP ABREAST OF ITS OWN POPULATION INCREASE AND THE BURDENS OF THE CONFRONTATION WITH ISRAEL. THE RECENT SHARP INCREASES IN THE INTERNATIONAL PRICES OF WHEAT AND OTHER ESSENTIAL IMPORTS HAS COMPOUNDED EGYPT'S FOREIGN EXCHANGE PROBLEMS. A SECOND IMPORTANT FACTOR HAS BEEN THE CHANGE OF PHILOSOPHY BETWEEN NASSER AND SADAT. SADAT IS, CLEARLY, NO SOCIALIST. OVER THE

PAST THREE YEARS, HE HAS DONE MUCH TO LOOSEN THE STRINGS UPON THE ECONOMY AS THE OCCASION PERMITTED, PARTICULARLY IN THE AREA OF FOREIGN TRADE AND EXCHANGE, AND HAS MOVED TO EFFECTIVELY ANNUL SOME OF THE MORE EXTREME MEASURES (SEQUESTRATION AND DISCRIMINATORY LEGISLATION AGAINST FOREIGN INVESTMENT, FOR EXAMPLE) TAKEN BY NASSER IN THE EARLY 1960'S. IT HAS OFTEN SEEMED THAT HE HAS WANTED TO MOVE FARTHER TOWARDS A CAPITALIST SYSTEM IN EGYPT, BUT HAS BEEN HELD BACK BY THE FEAR OF INTERNAL OPPOSITION AND THE GHOST OF NASSER. THIRDLY, EGYPT HAS BEEN GIVEN, AT A CRITICAL JUNCTURE OF ITS DEVELOPMENT, A MAJOR INCENTIVE TO MOVE IN THE DIRECTION OF A LIBERALIZED ECONOMY IN THE FORM OF SAUDI ARABIAN SUPPORT. PROJECTED LEVELS OF SUCH SUPPORT ARE NOT CLEAR. THEY ARE, HOWEVER, HIGH, AND PROVIDE GOOD REASON FOR SADAT TO LISTEN

CONFIDENTIAL

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PAGE 03 CAIRO 02516 02 OF 02 211503Z

CAREFULLY TO FEISAL'S COUNSEL ABOUT EGYPT'S NEED TO MOVE TOWARDS THE WEST AND A MORE LIBERAL ECONOMY.

5. AT THE MOMENT RALLIES AND DISCUSSION SESSIONS TO EXPLAIN EGYPT'S NEW DIRECTIONS ARE CONTINUING AT ALL LEVELS OF THE GOVERNMENT AND IN MAJOR POPULATION AREAS OF THE COUNTRY. MOST RECENT MEASURE IS SIGNALLED BY AUGUST 21 PRESS, WHICH ANNOUNCES THAT IN COMING DAYS HEGAZI WILL ISSUE DECREES IMPLEMENTING NEW ECONOMIC POLICY, COVERING THREE AREAS: (A) PARALLEL CURRENCY MARKET; (B) REVISION OF IMPORT PERMIT SYSTEM; (C) RE-ORGANIZATION OF FINANCE AND ECONOMIC MINISTRIES, WHICH WILL REPORTEDLY BE UNIFIED. ACCORDING TO AHAM, DECREES WILL BE EFFECTIVE SEPTEMBER 1. WE EXPECT THAT EARLY IN FORTHCOMING SESSION OF PEOPLES ASSEMBLY NEW LEGISLATION REGARDING ECONOMIC LIBERALIZATION WILL BE ENACTED AND PASSED, PROBABLY WITH THE SAME STRONG SUPPORT WHICH NASSER'S SOCIALIZATION MEASURES WERE GIVEN ONLY SLIGHTLY MORE THAN TEN YEARS AGO.

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